



Office of the Washington State Auditor

Pat McCarthy

Fraud Investigation Report

Seattle Colleges

For the investigation period March 15, 2019 through November 7, 2019

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**Office of the Washington State Auditor
Pat McCarthy**

March 18, 2021

Board of Trustees
Seattle Colleges
Seattle, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Seattle Colleges. On November 15, 2019, the College notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Cashier's unallowable activities at the College from September 19, 2019, and October 24, 2019. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.290) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Director of Communications Kathleen Cooper at (564) 999-0800. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy
State Auditor
Olympia, WA

cc: Jennifer Strother, Executive Director, Finance

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FRAUD INVESTIGATION REPORT

Investigation Summary

On November 15, 2019, the College notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

The College performed an investigation and determined a misappropriation of cash deposits occurred at the College, totaling \$43,822 between September 19, 2019 and October 24, 2019.

The College has not filed a report with law enforcement. We will refer this case to the King County Prosecuting Attorney's Office.

Background and Investigation Results

Seattle Colleges, located in King County, operates on an annual budget of about \$146 million, of which about \$55 million is for Seattle Central College (College). For fiscal years 2017 through 2019, SCC Cashiers' Office had four cashiers who processed about \$46 million in receipted funds via cash, check, or credit card payments. The College receipts payments for various College-related payments, such as tuition, student IDs, ORCA cards, parking permits, and other miscellaneous fees. College cashiers are responsible for receipting these payments and ensuring they get properly reconciled and deposited.

During the daily cash and monthly bank reconciliation process, the District (District) Cashiering Office identified a series of unusual actions at the College Cashier's Office related to one Cashier. This Cashier had a high volume of voids, which the Cashiering Office identified as unusual and followed an unusual pattern sequence, missing batch records, and late and missing deposits.

The District Accounting Department, District Human Resources Department, and College Business Officer investigated and determined the Cashier misappropriated \$43,821.76 through the use of multiple cashier register sessions and voids from September 19, 2019, through October 24, 2019.

We reviewed the investigation by the College and District and agree with its conclusions. The investigation found the Cashier:

- Had a pattern of creating more than one register cashiering session each day, when there should be only one session a day
- Had a pattern of initiating multiple voids on student accounts that appeared unusual and not expected
- Did not always submit deposits in a timely manner, with delays ranging from two to 50 days
- Did not make nine deposits, totaling \$43,822, from September 19, 2019, through October 24, 2019

The Cashier was placed on administrative leave on November 11, 2019, and their access to all College financial systems was restricted. Following the outcome of the investigation, the College ended the Cashier's employment effective February 10, 2020.

The College conducted two interviews with the Cashier – one on January 27, 2020, and the other on February 6, 2020 – during which the Cashier acknowledged that she had taken the missing nine deposits. During the February 6, 2020, interview, the Cashier gave the interviewers a canvas tote bag containing the missing deposits. The College recovered \$43,816.76, \$5 less than what was missing.

To determine if any additional misappropriation occurred, we considered whether the former Cashier had access to other systems. However, the extent of the former Cashier's access was limited to cashiering functions.

We also considered the original timeframe of the College's investigation: August 26, 2019 to November 7, 2019. Because the Cashier worked at the College for several years before the loss, we expanded our review period to cover high-volume receipting periods – from March 15, 2019 through April 15, 2019, and August 2019 – and could not determine if additional misappropriation occurred due to a lack of controls to monitor voids.

Control Weaknesses

Internal controls at the College were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The College did not have adequate controls in place to ensure all funds receipted at its Cashiers Office are actually deposited and deposited in a timely manner.
- The College did not have adequate procedures for tracking and monitoring multiple cashier register sessions and cashier batch submittals to ensure each session is properly accounted for and that all cashier batches were submitted in a timely manner.
- The College did not have adequate controls to ensure that all voids are supported, reviewed, and approved by a supervisor to ensure they are for valid reasons.

Recommendations

We recommend the College strengthen its system of internal controls over various cash receipting and deposit activities to ensure adequate safeguarding of public resources. Specifically, the College should implement controls to ensure all cash is deposited completely and in a timely manner. Further, the College should establish controls to ensure multiple cashiering sessions and batch submittals are properly monitored and tracked. Finally, the College should strengthen controls over voids to ensure all voids made are properly documented and approved.

We also recommend the College seek recovery of the remaining misappropriated \$5 and related investigation costs of \$22,500 from the former Cashier and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the College must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or Matthew.Kernutt@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

College's Response

Seattle Colleges had internal controls in place which enabled the detection of cash missing from the Seattle Central College cashiering station within several days of missing deposits of cash deposits.

Seattle Colleges district accounting office began notifying the Seattle Central College's cashiering manager that documentation was missing to substantiate the cash shown in specific cashiering sessions soon after the missing deposits of cash were detected. The controls included the separation of the duty of recording receipts from a specific cashiering station and recording cash entries for that station in the financial system.

Upon detecting missing cash, Seattle Colleges district accounting office initiated an early bank reconciliation to substantiate the missing cash deposits.

Because these controls were in place, Seattle District accounting was able to notify Seattle Central College to act quickly to initiate an administrative leave and begin an internal investigation.

These timely detections and actions led to the recovery of all but \$5.00 of the missing cash.

Seattle Central College's cashiering office immediately began enforcing procedures to require manager approval evidence of approving voided transactions and implemented procedures to detect and investigate multiple cashiering sessions held within a single day.

At the time the fraud occurred, Seattle Central College was operating on a nearly 40 year-old financial management system with limited reporting and permissions' controls. The older system made it more difficult to achieve early manager review of voided transactions and earlier review of cashiering entries.

Seattle Colleges migrated to a Peoplesoft system in February 2021. The new financial system has provided managers with improved reporting and more granular security roles which will allow easier review and approval of voided transactions and easier review of individual cashiering transactions. These new system features should provide better controls and enhance early detection of actions that might indicate potential fraud.

Auditor's Remarks

We thank College officials and personnel for their assistance and cooperation during the investigation. We will follow up on the College's internal controls during our next accountability audit.

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